

Message Text

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ACTION EUR-12

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FM AMEMBASSY BELGRADE

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INFO AMCONSUL ZAGREB

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E.O. 11652: N/A

TAGS: EGEN, ECON, EFIN, YO

SUBJ: COURTESY CALL ON GOVERNOR NATL BANK OF YUGOSLAVIA

REF: BELGRADE 2494

1. COURTESY CALL BY AMB MAY 29 ON NATL BANK GOVERNOR COLANOVIC PROVIDED OPPORTUNITY FOR WIDE-RANGING DISCUSSION ON YUGOSLAV BANKING SYSTEM, CURRENT YUGOSLAV BOP POSITION, INTERNAL ECONOMIC SITUATION, AND ECONOMIC RELATIONS WITH U.S.

2. FULL MEMCON FOLLOWS SEPAIR. HIGHLIGHTS THIS DISCUSSION WERE:

A. COLANOVIC'S DESCRIPTION OF CHANGES IN YUGOSLAV BANKSING WHICH WOULD EMPHASIZE GREATER USE OF SYSTEM OF PAPER (BONDS, COMMERCIAL INSTRUMENTS, ETC), BUT WHICH WOULD REQUIRE THAT THESE ALWAYS BE BACKED OR REPRESENT A REAL TRANSACTION. IN OTHER WORDS, YUGOSLAV BANKS ARE NO LONGER TO FINANCE GENERAL LIQUIDITY NEEDS OF ENTERPRISES, BUT MUST CONCENTRATE INSTEAD ON FINANCING CONCRETE COMMERCIAL OR INVESTMENT TRANSACTIONS.

B. COLONAVIC'S USE OF NEW GOY ESTIMATE OF 11975 CURRENT ACCOUNT DEFICIT, AT \$1.1 BILLION. HE ASCRIBED THIS TO DISAPPOINTING

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EXPORT PERFORMANCE IN FIRST FOUR MONTHS OF 1975 BECAUSE OF ECON-

OMIC SLOWDOWN IN WESTERN EUROPE AND U.S.

C. WHEN AMB POINTED OUT CONCERN EXPRESSED BY SMALLER NEW YORK BANKERS, FUELED BY REPORTS RECEIVED FROM EUROPEAN BANKS, OVER PROSPECTS FOR FINANCING THIS DEFICIT, COLANOVIC SAID OVERALL POSITION GOOD AND POINTED TO SOURCES OF FINANCE AVAILABLE TO GOY (PARA 4, BELGRADE 2494). HE REQUESTED U.S. SUPPORT WITHIN IMF FOR FULL DRAWING BY YUGOSLAVS (ESTIMATED AT \$300 MILLION) FROM SPECIAL OIL FACILITY.

D. IN DISCUSSION INITIATED BY AMB ON INFLATION, COLANOVIC STATED THAT ITS MAJOR CAUSE WAS EXCESSIVE INVESTMENTS, PARTICULARLY BY SOCIAL SECTOR. HE SAID "DRACONIAN" MEASURES WERE BEING INTRODUCED WHICH WOULD CURB SPENDING IN THE SOCIAL SECTOR BY (1) IMPOSING PRACTICAL PROHIBITION ON CAPITAL INVESTMENT THROUGH IMPOSITION OF REQUIREMENT OF FIFTY PERCENT DEPOSIT OF TOTAL AMOUNT OF INVESTMENT PRIOR TO BEGINNING WORK. ONLY EXCEPTIONS TO THIS RULE WOULD BE FOR CONSTRUCTION OF PRIMARY SCHOOLS (WHERE EDUCATION REQUIRED BY LAW) AND GENERAL HOSPITALS; AND (2) PLACING OF SPENDING CEILING ON EXPENDITURES OF COMMUNITIES WHICH WOULD BE ENFORCED BY SOCIAL ACCOUNTING SERVICE.

3. AMB EXPRESSED VIEW THAT TOURISM WAS EXCELLENT CANDIDATE FOR JOINT VENTURE INVOLVING MAJOR U.S. HOTEL CHAIN. COLANOVIC AGREED AND INDICATED THAT CHANGES IN JOINT VENTURE LAW WOULD PERMIT RE-INVESTMENT IF DINAR PROFITS, DROP LINK BETWEEN PROFIT REMITTANCES AND EXPORT EARNINGS, AND ALLOW JOINT VENTURES PURCHASE YUGOSLAV GOODS FOR EXPORT OUT OF FINAR EARNINGS.
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